Washington State Auditor's Office

Troy Kelley

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Financial Statements Audit Report

Port of Kalama

Cowlitz County

For the period January 1, 2013 through December 31, 2013

Published December 29, 2014

Report No. 1013322

Washington State Auditor
Troy Kelley

December 29, 2014

Board of Commissioners
Port of Kalama
Kalama, Washington

Report on Financial Statements

Please find attached our report on the Port of Kalama's financial statements.

We are issuing this report in order to provide information on the Port's financial condition.

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Port of Kalama
Cowlitz County
January 1, 2013 through December 31, 2013

Board of Commissioners
Port of Kalama
Kalama, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Kalama, Cowlitz County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated December 22, 2014. As discussed in Note 20 to the financial statements, during the year ended December 31, 2013, the Port implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Port's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Port's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Port's financial statements are free from material misstatement, we performed tests of the Port's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 22, 2014

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Kalama
Cowlitz County
January 1, 2013 through December 31, 2013

Board of Commissioners
Port of Kalama
Kalama, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Kalama, Cowlitz County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Port's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Kalama, as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 20 to the financial statements, in 2013, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 22, 2014

FINANCIAL SECTION

Port of Kalama
Cowlitz County
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

PORT OF KALAMA
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2013

<u>Introduction</u>

The following Management's Discussion and Analysis (MD&A) of the Port of Kalama's (the Port) activities and financial performance provide an introduction to the financial statements of the Port of Kalama for the fiscal year ended December 31, 2013, with selected comparative information for the fiscal year ended December 31, 2012. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section.

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents certain supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures.

<u>Overview of the financial statements</u>

The financial section of this annual report consists of three parts: the MD&A, the basic financial statements, and the notes to the financial statements. The report includes the following three basic financial statements: the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows.

<u>Financial position summary</u>

The statement of net position presents the financial position of the Port at the end of the fiscal year. The statement includes all the assets and liabilities of the Port. Net position, the difference between total assets and total liabilities, is an indicator of the fiscal health of the organization and the Port's financial position over time. A summarized comparison of the Port's assets, liabilities, and net position at December 31st is as follows:

	2013	2012
Assets:		
Current assets	$ 56,299,447	$ 54,249,856
Restricted assets	972,076	1,066,037
Other noncurrent assets	0	9,699
Capital assets, net	47,774,945	48,322,279
Total assets	$ 105,046,468	$ 103,647,871

	2013	2012
Liabilities:		
Current liabilities	$ 2,273,904	$ 2,295,571
Long-term liabilities, net	1,033,460	2,221,600
Total liabilities	$ 3,307,364	$ 4,517,171
Deferred inflows of resources:		
Deferred gain on refunding	$ 5,152	$ 0
Net position:		
Invested in capital assets, net	$ 46,318,690	$ 45,479,529
Restricted net assets	861,581	861,581
Unrestricted net assets	54,553,680	52,789,590
Total net position	$ 101,733,951	$ 99,130,700

- At December 31, 2013, the Port's assets exceeded liabilities by $101,733,951, a 3% increase over December 31, 2012.

- Assets grew by 3% for fiscal year ended December 31, 2013.

- Capital projects included construction of the Interpretive Center, which will also house administration; development of Spencer Creek Business Park; development of the Haydu Community Park; and construction of rail improvements at the TEMCO grain terminal.

- Liabilities decreased by 27% in 2013. Outstanding bonds are scheduled to be paid off in 2015.

- Forty-five percent of the Port's net position was invested in capital assets. The Port uses these capital assets to provide services to its visitors, customers, and tenants; consequently these assets are not available for future spending.

- Although the Port's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves cannot be used to liquidate liabilities.

- The unrestricted net asset balance of $54,553,680 may be used to meet any of the Port's ongoing obligations.

Financial operations highlights

The change in net position is an indicator of whether the overall fiscal condition of the Port has improved or worsened during the year. Following is a summary of the statements of revenues, expenses and changes in net position.

	2013	2012
Operating revenues	$ 11,333,681	$ 11,218,875
Operating expenses	4,652,067	4,482,848
Operating income before depreciation	6,681,614	6,736,027
Depreciation expense	1,870,399	1,805,457
Operating income	4,811,215	4,930,570
Nonoperating income (expense)	(1,290,527)	(1,272,065)
Net Income	3,520,688	3,658,505
Capital contributions	94,478	248,757
Change in net position	3,615,166	3,907,262
Beginning net position	99,130,700	95,223,438
Prior period adjustment	(998,685)	0
Change in accounting principle	(13,230)	0
Ending net position	$ 101,733,951	$ 99,130,700

- Marine terminal revenues for 2013 were down $168,000 (2%), but industrial tenant revenues were up $272,000 (11%).

- Net position at December 31, 2013, reflects the impact of GASB Statement 65. *Items Previously Reported as Assets and Liabilities*. See Note 20. below.

- Overall operating expenses increased $169,000 (4%) in 2013. Marine terminal expenses were down $109,000 (14%). Payroll and benefit expenses increased $112,000 (7%). Insurance costs were down $86,000 (16%). Maintenance, marketing, and IT showed general increases. Utilities and taxes showed general decreases.

- In 2013 dredge costs were reclassified to their own line item in the statement of revenues, expenses, and changes in fund net position. For purposes of comparability, nonoperating expense and depreciation for 2012 have been restated in the presentation above. Historically the results of dredging projects have lasted up to five years. Recently, however, annual dredging has been needed to maintain the required depth. This reclassification has no effect on the Port's operating income before depreciation or on net position. Prior period adjustments of $998,685 were made in order to recognize maintenance dredging costs incurred in a prior year and not previously expensed.

Budgetary highlights

The following represents the Port's budget highlights for the years ended December 31, 2013, with comparisons of the budgets for 2012 and 2011.

2013	Budget	Actual	Difference
Operating and nonoperating revenues	$ 10,845,000	$ 11,576,549	$ (731,549)
Operating and nonoperating expenses	4,865,000	5,832,051	(967,051)
Net income	$ 5,980,000	$ 5,744,498	$ 235,502

2012			
Operating and nonoperating revenues	$ 11,435,000	11,331,578	103,422
Operating and nonoperating expenses	4,800,000	4,690,803	109,197
Net income	$ 6,635,000	6,640,775	(5,775)

PORT OF KALAMA
STATEMENT OF NET POSITION
As of December 31, 2013

ASSETS		
Current assets		
Cash and cash equivalents	$	44,572,685
Investments		10,000,000
Accounts receivable		1,178,775
Taxes receivable		(21)
Funds held for Channel Deepening		76,662
Due from other governments		924
Inventory – fuel		13,318
Prepaid expenses		457,102
Total current assets		56,299,447
Noncurrent assets		
Restricted cash and cash equivalents		139
Restricted investments		971,937
Capital assets not being depreciated		
Land and land rights		11,981,300
Construction in process		4,793,491
Capital assets being depreciated		
Structures and improvements		42,984,657
Machinery and equipment		2,208,455
Other improvements		5,724,421
Less accumulated depreciation		(19,917,377)
Total noncurrent assets		48,747,023
TOTAL ASSETS	$	105,046,468
DEFERRED OUTFLOWS OF RESOURCES		
TOTAL DEFERRED OUTFLOWS	$	0.00

The accompanying notes are an integral part of this financial statement.

PORT OF KALAMA
STATEMENT OF NET POSITION
As of December 31, 2013

Current liabilities		
Warrants payable	$	140,788
Accounts payable		884,741
Taxes payable		68,392
Wages and benefits		53,004
Rent securities, retainage, and other		415,724
Revenue bonds		705,000
Interest		6,255
Total current liabilities		2,273,904
Noncurrent liabilities		
Revenue bonds		745,000
Other post-employment benefits		288,460
Total noncurrent liabilities		1,033,460
TOTAL LIABILITIES	$	3,307,364
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refunding	$	5,152
TOTAL DEFERRED INFLOWS	$	5,152
NET POSITION		
Net investment in capital assets	$	46,318,690
Restricted		861,581
Unrestricted		54,553,680
TOTAL NET POSITION	$	101,733,951

The accompanying notes are an integral part of this financial statement.

PORT OF KALAMA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended December 31, 2013

OPERATING REVENUES		
Marine terminal operations	$	8,069,843
Property lease operations		2,792,961
Marina operations		470,877
TOTAL OPERATING REVENUES		11,333,681
OPERTING EXPENSES		
General and administrative		3,724,277
Marine terminals		669,650
Marina and recreation		258,140
Total before depreciation		4,652,067
Depreciation		1,870,399
TOTAL OPERATING EXPENSES		6,522,466
OPERATING INCOME	$	4,811,215
NONOPERATING REVENUES (EXPENSES)		
Investment income	$	85,012
Taxes levied		0
Sand sales		63,378
Interest expense		(122,333)
Columbia River Channel Improvement expense		(33,326)
Maintenance dredging expense		(1,262,511)
Environmental remediation		(20,747)
TOTAL NONOPERATING REVENUES (EXPENSES)		(1,290,527)
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFERS		3,520,688
CAPITAL CONTRIBUTIONS		
State and federal grants		94,478
Increase (decrease) in net position		3,615,166
Net position as of January 1, 2013		99,130,700
Prior period adjustment		(998,685)
Change in accounting principle		(13,230)
NET POSITION AS OF DECEMBER 31, 2013	$	101,733,951

The accompanying notes are an integral part of this financial statement.

PORT OF KALAMA
STATEMENT OF CASH FLOWS
For the year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$	11,318,439
Cash paid to suppliers		(4,875,901)
Cash paid for employees		(1,560,610)
Cash paid for taxes		(493,974)
Cash received from other		6,283
Cash paid for other		(31,406)
Net cash provided by operating activities		4,362,831
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from property taxes		0.00
Other received, net		0.00
Net cash provided by / used in noncapital financing activities		0.00
CASH FLOWS FROM CAPITAL AND RELATED RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets		(1,534,679)
Retainage		7,253
Principal paid on revenue bonds		(1,295,000)
Principal paid on loans		(92,397)
Interest paid on revenue bonds		(126,830)
Interest paid on loans		(1,848)
Contributed capital for capital improvements		306,264
Due from other governments		17,663
Due to other governments		(15,924)
Net cash used in capital and related financing activities		(2,735,498)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases / sales of investments		2,999,825
Interest income		85,012
Net cash provided by / used in investing activities		3,084,837
Net increase (decrease) in cash and cash equivalents		4,712,170
Cash and cash equivalents January 1		39,937,316
Cash and cash equivalents December 31		44,649,486

The accompanying notes are an integral part of this financial statement.

PORT OF KALAMA

STATEMENT OF CASH FLOWS

For the year Ended December 31, 2013

RECONCILIATION OF OPERATING INCOME (LOSS) TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income	$	4,811,215
Adjustment to reconcile operating income to net cash provided by (used) by operating activities		
Depreciation		1,870,399
Sand sales		63,378
Columbia River channel improvement		(33,326)
Maintenance dredging		(1,262,511)
Change in assets and liabilities		
(Increase) decrease in accounts receivable		(290,698)
(Increase) decrease in inventories		(5,355)
(Increase) decrease in prepaid expense		(964,408)
Increase (decrease) in accounts and warrants payable		201,005
Increase (decrease) in taxes payable		(15,280)
Increase (decrease) in wages and benefits payable		47,274
Increase (decrease) in customer deposits		(58,862)
Total adjustments		(448,384)
NET CASH PROVIDED BY OPERATING ACTIVITIES		4,362,831

The accompanying notes are an integral part of this financial statement.

PORT OF KALAMA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

Note 1: Summary of Significant Accounting Policies

The Port of Kalama was incorporated in 1920 and operates under the laws of the State of Washington applicable to a port district. The accounting and reporting policies of the Port of Kalama conform to generally accepted accounting principles for local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of the significant accounting policies is presented to assist the reader in interpreting the financial statements. The more significant policies are described below.

Reporting Entity: The Port of Kalama is a special-purpose government that provides marine terminals, land and industrial development, and public recreation facilities to the general public and is supported primarily through user charges.

The Port is governed by an elected three-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Port of Kalama has no component units.

Basis of Accounting and Presentation: The accounting records of the Port of Kalama are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Port of Kalama uses the *Budgeting, Accounting, and Reporting System for Proprietary-Type Districts* in the State of Washington.

Funds are accounted for on a “cost of services” or “economic resources” measurement focus. This means that all assets and all liabilities, whether current or noncurrent, associated with their activity are included on the statements of net position. Their reported net position is segregated into net investment in capital assets, restricted, and unrestricted net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in total net position. The Port discloses changes in cash flows by a separate statement that presents operating, investing, capital and non-capital financing activities.

The Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

The district distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district’s principal ongoing operations. The principal operating revenues of the district are charges to customers for terminal activities, industrial building leases, and marina slip leases. Operating expenses for the district include costs related to terminal activities, administrative expenses, and depreciation on capital assets, etc. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Assets, Liabilities, and Equities:

Cash and Cash Equivalents. It is the Port's policy to invest all temporary cash surpluses. At December 31, 2013, the treasurer was holding $44,522,535 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents. For purposes of the statement of cash flows, the district considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Short-Term Investments. - See Note 2. Deposits and Investments.

Receivables. Taxes receivable consist of property taxes and related interest and penalties. (See Note No. 3. Property Taxes.) Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered.

Amounts to and from Other Governments. These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

Inventories. Inventories are valued by the FIFO method, which approximates the market value.

Restricted Assets and Liabilities. These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable. The current portion of related liabilities is shown as Revenue Bonds and Interest under the Current Liabilities section. Specific debt reserve requirements are described in Note 9. Long-term Debt.

The restricted assets at December 31, 2013, are composed of the following:

Cash and Investments – Debt Service	$	861,581
Cash and Investment – Channel Deepening		76,662
Cash and Investments – Construction		110,495
	$	1,048,738

Capital Assets and Depreciation. See Note 4. Capital Assets and Depreciation.

Other Property and Investments: See Note 2. Deposits and Investments.

Deferred Inflows of Resources: The Port reports a separate section for deferred inflows of resources, which represents an acquisition of net assets by the government that is applicable to a future reporting period.

Custodial Accounts. This account reflects the liability for net monetary assets being held by the Port in its trustee or agency capacity.

Compensated Absences. Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The district records unpaid leave for compensated absences as an expense and liability when incurred. Vacation pay, which may be accumulated up to a maximum of 30 days, is payable upon resignation, retirement, or death. Sick leave may accumulate up to a maximum of 120 days.

Other Accrued Liabilities. These accounts consist of accrued wages and accrued employee benefits.

Long-Term Debt. See Note 9. Long-Term Debt.

Note 2: Deposits and Investments

The Port's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

As of December 31, 2013, the Port had the following investments:

Investment	Maturity	Fair Value
State Investment Pool	March 11, 2014	$ 6,000,000
State Investment Pool	May 6, 2014	2,000,000
State Investment Pool	July 1, 2014	2,000,000
State Investment Pool	January 31, 2014	110,356
State Investment Pool	January 31, 2014	157,457
State Investment Pool	June 10, 2014	663,470
State Investment Pool	September 4, 2015	40,654
		$10,971,937

Note 3: Property Taxes

The Cowlitz County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections would be credited at the end of each month to the Port by the county treasurer.

Property Tax Calendar	
January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property is established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable and revenue when levied. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The district may levy up to $0.45 per $1,000 of assessed valuation for general governmental services. The Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The district may also levy taxes at a lower rate.

The Port elected to remove itself from the tax levy rolls for taxes receivable in 2013.

Note 4: Capital Assets and Depreciation

Major expenditures for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Obligations under capital leases are disclosed in Note 10. Leases.

All capital assets are valued at historical cost, or estimated historical cost, where historical cost is not known, or estimated market value for donated assets. Donations by developers and customers are recorded at the contract price or donor cost or appraised value.

The Port has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the Port has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account.

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, are charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the Port's plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Interest on funds used during construction, less interest earned on related interest-bearing investments if the asset is financed with externally restricted tax-exempt proceeds, is capitalized as part of the cost of the asset. The procedure is intended to remove the cost of financing construction activity from the operating statements and to treat such cost in the same manner as construction labor and material costs.

The Port had no capitalized interest in 2013.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of 3 to 75 years.

Capital assets activity for the year ended December 31, 2013, was as follows:

	Beginning Balance 01/01/2013	Increases	Decreases	Ending Balance 12/31/2013
Capital assets, not being depreciated:				
Land and Land Rights	$ 11,820,883	$ 160,417	$ 0	$ 11,981,300
Construction in Progress	3,115,629	2,028,097	350,235	4,793,491
Total	$ 14,936,512	$ 2,188,514	$ 350,235	$ 16,774,791
Capital assets being depreciated:				
Structures and Improvements	$ 43,217,502	$ 31,476	$ 264,321	$ 42,984,657
Machinery and Equipment	1,937,666	270,789	0	2,208,455
Other Improvements	6,541,899	181,057	998,535	5,724,421
Total	$ 51,697,067	$ 483,322	$ 1,262,856	$ 50,917,533
Less accumulated depreciation for:				
Structures and Improvements	$ 14,999,585	$ 1,235,657	$ 151,803	$ 16,083,439
Machinery and Equipment	517,253	105,090	0	622,343
Other Improvements	2,794,462	417,133	0	3,211,595
Total accumulated depreciated	$ 18,311,300	$ 1,757,880	$ 151,803	$ 19,917,377
Total net capital assets	$ 48,322,279	$ 913,956	$ 1,461,288	$ 47,774,947

Construction Commitments

The Port has active construction projects as of December 31, 2013. The projects included:

Project	Spent to Date		Remaining Commitment	
East Port Business Park	$	47,361	$	133,901
Haydu Community Park		135,818		50,503
Interpretive Center		1,452,511		3,320,456
TEMCO Rail Project		12,797		98,203
Totals	$	$1,648,487	$	3,603,063

Of the committed balance of $3,603,063, the Port will be required to raise zero funds in future financing.

Note 5: Stewardship, Compliance, and Accountability

There have been no material violations of finance-related, legal, or contractual provisions.

Note 6: Pension Plans

Substantially all Port's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating higher education retirement programs. Approximately 49% of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.
PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of

service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.
PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	**263,347**

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.
The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the Port of Kalama and the employees made the required contributions. The Port's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$5,300	$72,250	$4,083
2012	$4,623	$59,627	$169
2011	$3,869	$51,796	$0

Note 7: Risk Management

The Port maintains insurance against most normal hazards through a commercial insurance broker for public officials, commercial, automobile, property loss, and general liability.

In comparison to prior years, there were no significant changes in the types and coverage of insurance policies purchased by the Port for 2013. Also, settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8: Short-term Debt

The Port has no short-term debt.

Note 9: Long-term Debt

Long-Term Debt. In 1996 the Port issued several revenue bonds to finance construction of a dock and public access roads. Bonded indebtedness was issued in 2006 in order to advance refund these revenue bonds. There is no general obligation debt.

Bonds outstanding as of December 31, 2013, were as follows:

Purpose	Maturity Range	Interest Rates	Original Amount	2013 Installment
2006 A Revenue Bond	2015	4.50%	$ 335,000	$ 40,000
2006 B Revenue Bond	2015	4.50% to 5.25%	$ 5,235,000	$ 635,000

The 2001 bond issue and the Public Works Trust Fund loan were paid off in 2013 ahead of schedule.

As of December 31, 2013, the annual debt service requirements for the Port's bonds were as follows:

	2006 A		2006 B	
Year Ending December 31	Principal	Interest	Principal	Interest
2014	$ 40,000	$ 3,400	665,000	71,663
2015	45,000	1,800	700,000	36,750
Total	$ 95,000	$ 5,200	$ 1,365,000	$ 108,413

In proprietary funds, unamortized debt issue costs for insurance are recorded as deferred inflow, and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

At December 31, 2013, restricted assets contain $861,581 in reserves as required by bond indentures.

The Port has pledged future terminal revenue to repay the principal and interest for the refunding bonds issued in 2006. The bonds will be paid off December 1, 2015. Annual principal and interest payments are expected to require less than 10% of net revenues. Principal and interest paid for the current year and total pledged revenue were $1,516,025 and $8,069,843 respectively.

Note 10: Operating and Capital Leases

The Port has no operating or capital leases.

Note 11: Restricted Net Position

The Port's Statement of Net Position reports $861,581 as of December 31, 2013. This amount is restricted by enabling legislation. Also see Note 1.

Note 12: Contingent Liabilities

The Port's financial statements include all material liabilities. There are no material contingent liabilities to report.

Note 13: Other Post-employment Benefit Plans

Plan Description and Funding Policy

In addition to pension benefits as described in Note 6, the Port, through the Health Care Authority (HCA), provides an agent multiple-employer other post-employment benefit plan (OPEB). Per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the Health Care Authority, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life and long-term disability.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 54 of the state's K-12 schools and educational service districts (ESDs), and 207 political subdivisions including the Port. Additionally, the PEBB plan is available to the retirees of the remaining 243 K-12 schools and ESDs. As of June 2013, membership in the PEBB plan consisted of the following:

	Active Employees	Retirees[1]	Total
State	107,003	28,633	135,636
K-12 Schools and ESDs[2]	1,838	30,354	32,192
Political Subdivisions	11,840	1,392	13,232
Total	120,681	60,379	181,060

[1] Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
[2] In Fiscal Year 2013, there were 101,189 full-time equivalent active employees in the 243 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

	Active Employees	Retirees	Total
Port of Kalama	18	5	23

For Washington State Fiscal Year 2013, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows:

Required Premium [3]		
Medical	$	913
Dental		82
Life		4
Long-term Disability		2
Total	$	1,001

Contributions		
Employer Contribution	$	865
Employee Contribution		136
Total	$	1,001

[3] Per 2013 index rate model 7.2.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, and Higher Education.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's Non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the Non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other Non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In Calendar Year 2012, the average weighted implicit subsidy was valued at $330 per member per month, and in calendar year 2013, the average weighted implicit subsidy is projected to be $294 per member per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the Health Care Authority administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the

Governor's budget. In Calendar Year 2012, the explicit subsidy was $150 per member per month, and in calendar year 2013, the explicit subsidy was $150 per member per month. Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical and life insurance benefits.

Contributions are set each biennium as part of the state's budget process. In Fiscal Year 2013, the cost of the subsidies was approximately 6.0 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

Each participating employer in the plan is required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made, the funded status and funding progress of the employer's individual plan and actuarial methods and assumptions used.

The PEBB OPEB plan is accounted for as an agency fund on an accrual basis. The plan has no investments or other assets. The PEBB OPEB plan does not issue a publicly available financial report.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to:
http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm.

Annual OPEB Cost and Net OPEB Obligation

The Port's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following tables show the components of the Port's annual OPEB cost for the Port's Fiscal Year 2013, the amount actually contributed to the plan, and changes in the net OPEB obligation (NOO):

Annual OPEB Cost		
ARC	$	59,593
Interest on NOO		10,016
Amortization of NOO		(14,481)
Annual OPEB Cost	$	55,128
Contributions Made		(17,070)
Increase in NOO	$	38,058
BOY NOO		250,401
YE NOO	$	288,459

The Port's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Year 2013 was as follows:

Annual OPEB Cost	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	$55,128	31%	$288,459
2012	$71,499	21%	$250,401
2011	$66,405	14%	$193,969

Funded Status and Funding Progress

The funded status of the plan as of December 31, 2013, was as follows:

Unfunded Actuarial Accrued Liability (UAAL)	
Actuarial Accrued Liability (AAL)	$552,212
Actuarial Value of Plan Assets	0
Unfunded Actuarial Accrued Liability (UAAL)	$ 552,212
UUAL / Covered Payroll	
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	$1,008,100
UAAL as a Percentage of Covered Payroll	55%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations

Significant methods and assumptions used by the PEBB by were as follows:

Actuarial valuation date	January 1, 2013
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization
Remaining amortization period	Thirty years
Asset valuation method	N/A – No assets
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.75%
Healthcare inflation rate	8.0% initial, 5.0% ultimate rate in 2093
Inflation rate	3.0%

The Port used the alternate measurement method permitted under GASB Statement No. 45. A single retirement age of 62.20 was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the PERS 2 rates used in the June 30, 2013, actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide PEBB study performed in 2013. The results were based on group data with four active groupings and four inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 30 years. The assumptions are individually and collectively reasonable for the purposes of this valuation.

Note 14: Pollution Remediation Obligations

The Port has identified a location which has minor contamination issues. Historical records indicate that diesel fuel and lubricants were stored and used on the property, and fuel contamination – mainly benzene, toluene, and total petroleum hydrocarbons as gasoline (TPH-G) – occurred at the site. In addition, a bleach spill at the same location may have killed microbes needed for biodegradation.

The Port proposed an independent action to jump-start biological activity to degrade the contaminants through natural attenuation, and the Washington Department of Ecology was in agreement with the approach. The plan entailed injecting acetic acid through an infiltration trench in order to lower the pH level and promote the biodegradation process.

The Port's most recent estimated liability has been prepared using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible amounts. Grand total costs, before any recoveries, are expected to be $125,000. The Port's pollution insurance carrier has been notified, but no claim has yet been made.

Note 15: Tenant Leases

As part of its normal operations, the Port of Kalama leases out land and buildings to tenants who intend to utilize the Port's facilities generating direct benefits within the community. The Port's objective is that lease terms be for a length of time that will assist in ensuring economic stability and a fair return on the value of the facilities being leased. Lease terms, including options for renewal, run from 1 to 50 years. In addition, there are properties that are rented on a month-to-month basis.

Minimum annual rent payments, for the next five years for all leases having noncancelable terms exceeding one year are as follows:

Year	Revenue	
2014	$	2,226,953
2015		2,081,836
2016		1,956,226
2017		1,792,202
2018		1,671,423
	$	9,728,640

Note 16: Prior Period Adjustments

Prior period adjustments of $998,685 were made in order to recognize maintenance dredging costs incurred in a prior year and not previously expensed.

Note 17: Major Receivables

In 2013, 71% of operating revenue came from three unrelated terminal customers. The comparable figure from 2012 was 85%.

Note 18: Channel Deepening Project

The Columbia River Channel Improvement Project is a bi-state project supported by port sponsors from the States of Oregon and Washington. Over the past decade, the Washington Ports of Kalama, Longview, and Vancouver, have cooperated with the U.S. Army Corps of Engineers and the Ports of Portland and St. Helens, regarding improvements to the Columbia River Federal Navigation Channel. This has included, among other activities, a reconnaissance study, a feasibility study under the auspices of the Columbia River Improvement Project, The Dredged Material Management Plan and associated environmental impact statements for both the maintenance of the existing channel and the plans to increase the channel depth from 40 to 43 feet.

The Ports entered into the Washington Ports Agreement in 1999 for the purpose of participating as non-federal sponsors for the Channel Improvement Project. The Ports expanded the Agreement by amendments on October 17, 2001, on February 19, 2002, on March 15, 2002, and January 30, 2004.

The Washington and Oregon Ports entered into the "Intergovernmental Agreement Among Lower Columbia River Ports For Columbia River Channel Deepening And Maintenance" with the U.S. Army Corps of Engineers for the Channel Improvement Project on June 21, 2004. The Project Cooperation Agreement identifies disposal, mitigation and restoration sites needed for the Channel Improvement Project.

The State of Washington appropriated $27.7 million for the Washington sponsor's share of project costs. The Oregon—Washington Ports Agreement allocates costs of the Channel Improvement Project. All costs incurred, with the exception for port-owned beneficial use sites, will be shared 50/50 between the states. The Washington Ports share of the costs is shared equally between the three Washington Ports. At the completion of the Columbia River Channel Improvement Project a final accounting of the project will occur to ensure that the non-federal sponsors have equally contributed to the project, met their obligations to U.S. Army Corps of Engineers, and equalization will occur between the States of Washington and Oregon.

The deepening portion of the 103 mile navigation channel was completed in November 2010. There are three remaining disposal sites to be acquired. Disposal sites are reported as capital contributions for financial statement purposes and are carried at one-third of value by the Ports of Kalama, Longview and Vancouver.

Note 19: Port of Kalama Public Corporation

On November 11, 1981, the Port of Kalama authorized the establishment of the Port of Kalama Public Corporation pursuant to the provision of Chapter 39.84 RCW. The purpose of the corporation is to facilitate the economic development and employment opportunities within the Port by various means including the issuance of revenue bonds for the purpose of financing industrial development facilities. Revenue bonds issued for this purpose are payable from revenues of the financed facilities and do not represent a liability or contingent liability of the Port. The affairs of the corporation are governed by a three-member board of directors. Currently, the Port of Kalama Board of Commissioners is also the Port of Kalama Public Corporation Board of Directors. The corporation authorized and issued 20-year bonds totaling $48,400,000 in 1983. These bonds have been paid off. The corporation had assets of $3,000 on December 31, 2013.

Note 20: Accounting and Reporting Changes

In March 2012, GASB issued Statement 65. *Items Previously Reported as Assets and Liabilities*. The Port has implemented this pronouncement, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities. The implementation of this change in accounting principles requires the recognition of bond issuance costs, retroactively causing an adjustment to the Port's net position as follows.

Original Net Position at January 1, 2013	$ 99,130,700
Prior Period Adjustments	(998,685)
Change in Accounting Principle	(13,230)
Adjusted Net Position at January 1, 2013	$ 98,118,785

In March 2012, GASB issued Statement 66. *Technical Corrections - 2012.* This statement resolves conflicting accounting and financial reporting guidance that resulted from the issuance of GASB Statements 54 and 62. The Port has adopted this pronouncement, which does not have a material effect o

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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